

Message Text

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ACTION NEA-10

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FM AMEMBASSY TEL AVIV
TO SECSTATE WASHDC 2037
INFO AMEMBASSY AMMAN
AMEMBASSY BEIRUT
AMEMBASSY CAIRO
AMEMBASSY DAMASCUS
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E. O. 11652: NA
TAGS: ECON IS JO
SUBJ: GAZA AND THE WEST BANK- THE ECONOMIC CONSEQUENCES OF
PEACE

1. SUBJECT AIRGRAM WRITTEN BY ECONOMIC/COMMERCIAL
COUNSELOR SAMUEL F HART HAS BEEN POUCHED TO ALL
ADDRESSEE POSTS. BECAUSE OF FREQUENT DELAYS IN
POUCH DELIVERIES, THE FOLLOWING SUMMARY AND
CONCLUSIONS SECTION IS PROVIDED FOR YOUR INFORMATION:

2. I. SUMMARY AND CONCLUSIONS

THE ECONOMIES OF THE WEST BANK AND GAZA
HAVE GROWN RAPIDLY IN THE PAST DECADE BASED ON THE
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EARNINGS OF WORKERS IN ISRAEL, JORDAN AND THE ARAB
OIL STATES AND THE RAPID MODERNIZATION OF AGRICULTURE.
THE NEW PROSPERITY, WHICH IS CLEARLY VISIBLE, HAS
LED TO A HOUSING CONSTRUCTION BOOM, BUT LITTLE INVEST-
MENT HAS GONE INTO PRODUCTIVE ACTIVITIES. INDUSTRIAL
DEVELOPMENT IN THE OCCUPIED TERRITORIES HAS BEEN CARRIED
OUT MAINLY BY ISRAELI FIRMS WHICH, ATTRACTED BY THE

RELATIVELY CHEAP LABOR AND LOWER TAXES, PRODUCE COMPONENTS FOR THEIR ISRAELI OPERATIONS.

3. AGRICULTURE IS STILL KING IN THE ECONOMIES OF BOTH AREAS, ACCOUNTING DIRECTLY FOR 35 PERCENT OF EMPLOYMENT AND 38 PERCENT OF GNP IN THE WEST BANK AND 26 PERCENT AND 28 PERCENT RESPECTIVELY IN GAZA. INDUSTRY'S SHARE OF GNP IS LESS THAN 10 PERCENT AND MUCH OF THAT IS RELATED TO THE PROCESSING OF AGRICULTURAL PRODUCTS. THE FUTURE GROWTH OF AGRICULTURE IN THE OCCUPIED TERRITORIES WILL DEPEND MAINLY ON MORE EFFICIENT USE OF THE REASONABLY PRODUCTIVE LAND AND WATER BECAUSE ADDITIONAL SUPPLIES OF EACH ARE QUITE LIMITED.

4. THE WEST BANK AND GAZA ARE FULL EMPLOYMENT ECONOMIES - THE UNEMPLOYMENT RATE IS UNDER 1 PERCENT, AND THAT IS ENTIRELY FRICTIONAL. UNDER-EMPLOYMENT IS ALSO DECLINING. THE BOOM IN THE TERRITORIES AND THE ATTRACTION OF JOBS IN ISRAEL AND THE GULF STATES HAVE DRAWN EXCESS LABOR FROM AGRICULTURE AND THE REFUGEE CAMPS. IN FACT, SOME KINDS OF LABOR ARE IN SHORT SUPPLY. HOWEVER, TO KEEP UNEMPLOYMENT LOW IN THE YEARS AHEAD WILL REQUIRE A CONTINUING HIGH RATE OF GROWTH TO ABSORB THE LARGE NUMBERS OF YOUTHS ABOUT TO ENTER THE WORK FORCE AND THE RESERVOIR OF WOMEN WHO ARE JUST BEGINNING TO TAKE JOBS OUTSIDE THE HOME.
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5. THE ECONOMIES OF GAZA AND THE WEST BANK, WHICH ARE NOT COMPLIMENTARY TO EACH OTHER, BOTH ARE NOW CLOSELY INTEGRATED INTO THE ISRAELI ECONOMIC SYSTEM. NEARLY ONE-THIRD OF THOSE FROM THE OCCUPIED TERRITORIES WITH JOBS WORK IN ISRAEL AND THEIR EARNINGS ACCOUNT DIRECTLY OR INDIRECTLY FOR NEARLY HALF OF WEST BANK AND GAZA GNP. THE TERRITORIES RECEIVE 91 PERCENT OF THEIR IMPORTS FROM ISRAEL AND SEND ISRAEL 65 PERCENT OF THEIR EXPORTS. THE COMMUNICATIONS, TRANSPORTATION AND POWER SYSTEMS HAVE BECOME CLOSELY INTERTWINED OVER THE LAST DECADE - MUCH TO THE DISCOMFORT OF MANY WEST BANK AND GAZA ARABS. IN CERTAIN AREAS, HOWEVER, SUCH AS EDUCATION, TAX SYSTEMS, FINANCE, BANKING AND PUBLIC ATTITUDES, ISRAEL AND THE OCCUPIED TERRITORIES REMAIN FAR APART.

6. THE OCCUPIED TERRITORIES ARE ABLE TO FINANCE LARGE DEFICITS IN THEIR MERCHANDISE ACCOUNTS BY THE REMITTANCES OF THEIR WORKERS WITH JOBS IN ISRAEL AND ELSEWHERE. IN ADDITION, CONSIDERABLE SAVINGS IN THE FORM OF GOLD AND FOREIGN CURRENCY HAVE BEEN ACCUMULATED AND ARE HELD BOTH IN GAZA AND THE WEST BANK AND ABROAD. A MAJOR

DEVELOPMENTAL PROBLEM FACING THE TERRITORIES IS HOW
TO COMBINE THESE FUNDS WITH THE NECESSARY ENTREPRENEURIAL
AND LABOR SKILLS TO PROMOTE ECONOMIC GROWTH.

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K WEST BANK AND GAZA ARABS TEND TO VIEW THEIR PRESENT
ECONOMIC SITUATION AND THE EVENTS OF THE LAST TEN YEARS
IN AN ENTIRELY DIFFERENT LIGHT THAN DO THE ISRAELIS.
THE ISRAELIS SEE THEMSELVES PRIMARILY AS BENEFACTORS
WHO HAVE BROUGHT UNPARALLELED ECONOMIC OPPORTUNITIES
TO THE WEST BANK AND GAZA. THE INHABITANTS OF THE
TERRITORIES ONLY RELUCTANTLY ADMIT THAT ISRAELI OCCU-
PATION HAS BROUGHT ANY ECONOMIC BENEFIT. THEY SEE PRE-
SENT ARRANGEMENTS, SUCH AS THE EMPLOYMENT OPPORTUNITIES
IN ISRAEL, AS BURDENS. THIS DIFFERENCE IN PERCEPTION
IS EXTREMELY IMPORTANT IN DETERMINING HOW ISRAELIS
AND ARABS LOOK TOWARD THE FUTURE AND THE KIND OF ECONOMIC
ARRANGEMENTS THEY WOULD SEEK SHOULD PEACE BE ACHIEVED.
THE ARABS WOULD LIKE PROTECTION AGAINST WHAT THEY
CONSIDER PRESENT EXPLOITIVE ISRAELI PRACTICES. THE
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ISRAELIS CANNOT UNDERSTAND WHY THE ECONOMIC INTERDEPENDENCE OF ISRAEL, GAZA AND THE WEST BANK, WHICH IMPROVES THE ECONOMIC WELL-BEING OF ALL, SHOULD BE INTERRUPTED BY A PEACE AGREEMENT.

8. THE FOLLOWING CONCLUSIONS HAVE BEEN REACHED AFTER A SURVEY OF THE WEST BANK AND GAZA ECONOMIES AND ARE MEANT TO SERVE AS CHECK POINTS FOR THOSE WHO ARE THINKING ABOUT THE FORMS THESE ECONOMIES MIGHT TAKE UNDER A VARIETY OF POLITICAL ARRANGEMENTS. NO ASSUMPTIONS ABOUT POLITICAL STRUCTURES HAVE BEEN MADE:

--THE WEST BANK AND GAZA WILL NEED OPEN BORDERS WITH ISRAEL AND JORDAN AND FREE ACCESS TO THE ARAB OIL STATES AND THE WESTERN INDUSTRIAL COUNTRIES TO MAXIMIZE THEIR ECONOMIC POTENTIAL. IDEALLY, THERE SHOULD BE A FREE TRADE AREA AND CUSTOMS UNION WITH ISRAEL (AND POSSIBLY ALSO WITH JORDAN), BOTH TO PROMOTE ECONOMIC EFFICIENCY AND TO AVOID THE EXTREMELY DIFFICULT PROBLEMS IN CREATING A "CORRIDOR" BETWEEN GAZA AND THE WEST BANK.

-- WEST BANK AND GAZA CANNOT PROVIDE JOBS FOR SUBSTANTIAL NUMBERS OF PALESTINIAN REFUGEES FROM OUTSIDE THE TERRITORIES FOR THE FORESEEABLE FUTURE. AGRICULTURE IS ALREADY AT ITS LIMIT IN TERMS OF EMPLOYMENT OPPORTUNITIES AND RAPID EXPANSION IN THE OTHER SECTORS OF THE ECONOMY WILL BE NEEDED TO FURNISH JOBS FOR THE LARGE NUMBER OF YOUTHS AND WOMEN WHO WILL BE ENTERING THE JOB MARKET.

--THE DEVELOPMENT OF INDUSTRY OVER THE MEDIUM TERM WILL REQUIRE THE IMPORTATION OF MOST OF THE CAPITAL, TECHNOLOGY AND ENTREPRENEURIAL

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SKILLS. THE WEST BANK/GAZA CONTRIBUTION SHOULD BE MAINLY PEOPLE TO FILL THE MIDDLE MANAGEMENT AND WORKER POSITIONS. ONLY AFTER SOME YEARS OF TRAINING, OF SUCCESSES AND OF POLITICAL STABILITY WILL WEST BANKERS AND GAZANS BE ABLE TO SUPPLY ALL THE NEEDED INPUTS. THE ECONOMIC MODEL FOR THE ECONOMY PROBABLY COULD RESEMBLE THE ONE USED BY SINGAPORE AND HONG KONG.

--IN ECONOMIC TERMS, IT IS AS IMPORTANT THAT

THE OTHER ARAB STATES ACCEPT GAZA AND WEST BANK PRODUCTS, PERHPAS ON A PREFERRED BASIS, AS IT IS FOR THEM TO SUPPLY AID OR INVESTMENT FUNDS. THERE WILL BE A CLEAR TRADE-OFF BETWEEN TRADE AND AID. IF THE WEST BANK AND GAZA ARE CLOSELY LINKED TO ISRAEL, THE PROBLEM TO BE OVERCOME WILL BE ESSENTIALLY POLITICAL; HOW THE OTHER ARBAS CAN HELP THE PALESTINIAN WITHOUT ALSO HELPING THE ISRAELIS?

--ANY ATTEMPT TO PROTECT WEST BANK AND GAZA INFANT INDUSTRY FROM ISRAELI COMPETITION WILL ALMOST CERTAINLY LEAD TO PROGRESSIVE RAISING OF TRADE BARRIERS BY BOTH SIDES TO THE ECONOMIC DETRIMENT OF BOTH.

--TOURISM COULD BECOME A MAJOR INDUSTRY IN THE OCCUPIED TERRITORIES. IN THE WEST BANK THE FUTURE POLITICAL STATUS OF JERUSALEM WILL BE IMPORTANT TO TOURISM DEVELOPMENT.

--THE EQUITABLE DISTRIBUTION OF WATTER SUPPLIES AMONG ISRAEL, JORDAN, GAZA AND THE WEST BANK MUST BE DELAT WITH IN ANY PEACE SETTLEMENT.

--THE ISRAELI RESIDENTIAL AND INDUSTRIAL SETTLEMENTS IN THE OCCUPIED TERRITORIES COULD PROVIDE ECONOMIC BENEFITS TO BOTH ARABS AND JEWS. THIS PROBABLY IS NOT TRUE OF THE AGRICULTURAL SETTLEMENTS ALONG THE JORDAN RIVER WHERE THE LIMITED OFFICIAL USE

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USE BY THE SETTLEMENTS OF THE LIMITED SUPPLY OF GOOD LAND AND WATER IS AT THE EXPENSE OF THE ARABS.

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